October 29, 1996

Ms. Mary L. Cottrell, Secretary
Department of Public Utilities
100 Cambridge Street, 12th Floor
Boston, MA 02202

RE: DPU Docket 96-100 and 96-25, Electric Industry Restructuring, Mass Electric Offer of Settlement Submitted October 1, 1996.

Dear Secretary Cottrell:

We are taking this opportunity to expand on our reasons for requesting a Petition for Leave to intervene in the above referenced Settlement proceeding. Although we are pleased with the willingness of New England Electric (NEES) to divest itself of its generation assets and to accept the Department's full retail access date of January 1, 1998, we are nevertheless concerned with many aspects of the Settlement. It is for these reasons that we have chosen not to sign on as a signatory to the Agreement. Additionally, our customers share those same concerns. The concerns are:

1. Stranded costs are excessive and unjustified.
2. The Payback period is questionable and the upfront loading of these costs in the early years is unreasonable.
3. Credit to the stranded asset account after sale of the generation assets should be prompt and not protracted.
4. True up in the reconciliation account should be timely and therefore should not be allowed to lag for three years before the first adjustments are made.
5. The standard offer allows NEES to bid on its own business because the standard offer price agreed upon is cost and not market driven.
6. The standard offer term of 7 years is excessive and will lead to a very limited number of suppliers bidding to provide such service.
7. Allowing the immediate buy back of generation assets immediately after divestiture

could affect the ultimate market price of the assets.

8. There should be no guarantee to cover local transmission charges if those charges are rejected by any governmental authority.
9. Allowing an r.o.e. of up to 11.75% is unreasonable, particularly without a rate hearing.
10. The "guaranteed" 10% rate discount is not a guarantee at all.

Of the 10 points listed above, we are most concerned with the first three (3) items. In our previously filed comments, we stated that the access charge should be reasonable and should reflect prudently incurred costs. The Settlement Agreement states that whatever NEES assumes to be stranded, no matter the cause, is to be construed as stranded. This leaves the customer with no choice but to continue paying higher rates than is warranted or justified. In our comments filed with the Department on May 26th, we recommend that the initial stranded cost be set at 1.0 cents per kilowatt hour pending the disposition and sale of generation assets. We see no reason to justify the extremely high access charge particularly when nothing in the most current FERC form 1 filings would lead one to conclude that all of NEES's assets are stranded. Furthermore, since NEES has placed an approximate book value of $1.2 billion on its fossil, fuel and hydro generation assets, we believe that this amount should be factored in and taken off from the initial access charges. We also believe that the value of NEES's assets are substantially higher than the stated $1.2 billion. Thus, we are still left to conclude that 1.0 cents per kilowatt hour is the most reasonable initial access fee. The Massachusetts ratepayer will then be given the opportunity to truly capture the benefits of a competitive market. If this even-handed approach is resisted, then we would recommend that the sales credit be deducted from the access charge immediately after the sale of generation assets rather than be delayed through a straight line phase through 12/31/09 (Book 2 of 5 Attach. 1 Art 1.1.5 (c), Page 6 of 14). On the surface, it appears that the issue of stranded cost has not been adequately

resolved, and more effort will be needed to arrive at a reasonable stranded access charge and proper phase out of those charges.

With respect to the remaining concerns listed above, there appears to be too many "give aways" for the sake of reaching an Agreement. We do not think that it is in anyone's best interest to allow the reconciliation account to be built up for three years before a true up is made (Book 2 of 5 Attach.1 Art 1.2.1, Page 7 of 14). The standard offer, as described on Page 7 of The Restructuring Settlement Agreement, allows for Mass. Electric to remain in the electric supply business. It is likely that the initial offer price will probably be too low for most to bid during the first three years while the length of the offer would not be conducive to non affiliated bidders since the bid will be weighted toward the outer years where market uncertainty and concomitant risk will drive the price equation upwards. Thus, standard offer service providers will be either extreme risk takers with perhaps questionable credentials or the default supplier, namely Mass. Electric. Thus, Mass. Electric continues as the major energy supplier to the retail user and not much really changes from present day business as a result of restructuring. We question why a term of seven years is required and why fix a price without regard to the market place? That leads us into the next question, namely, why does Mass Electric insist on the right to repurchase its divested generation assets (Book 2 of 5 Stipulation and Agreement, Art 6.4)? Is it because Mass Electric expects to continue to supply energy services to its distribution customers by default well into the foreseeable future even beyond the termination dates stipulated in the Agreement or is it because the terms of contemplated sale of its assets will have tie back or lease back conditions which would favor Mass Electric Marketing in its marketing efforts? With respect to the latter question, we recommend that there be a three year cooling off period before acquisition is allowed in order to mitigate the market power of current generators. Further, we do not understand why NEP should be entitled to collect the unrecovered balance of the Contract

Termination Charges through a surcharge on the transmission charge when it is denied the ability to recover its access charges established for its local distribution service (Stipulation and Agreement Art 4.1 Para. 2). Finally, we do have a great deal of reservation about the guaranteed rate. The only thing that appears to be guaranteed is the high r.o.e. of up to 11.75% and not the rate reduction. We believe that the 10% reduction should include fuel prices. Also, why should a protected business be allowed to earn such a high r.o.e.? The allowed r.o.e. rate should reflect that of a minimal risk business investment.

We are cognizant that the parties to the Settlement Agreement recognize that there are issues that have yet to be resolved. We do hope that the issues which we have brought out herein have not reached finality. The playing field must be leveled between rate payer and shareholder interests. Thus far, it appears that it is the shareholder interest that has the upper hand. Since we can assume that this Settlement will be the model for others', we strongly urge the Department to consider at a minimum those areas which we have touched upon herein. We believe that a more balanced approach to resolving some of our concerns will lead to a better consensual resolution among all parties that have an interest in settlement and, more importantly, will lead to a more competitive marketplace much sooner than expected.

Sincerely,

Stephen M. Tuleja
President

cc: George B. Dean (Office of the Attorney General)
John Maher (Senator Michael Morrissey)
Thomas Robinson (Massachusetts Electric)
Robert Sydney (Division of Energy Resources)